

Message Text

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E.O. 11652: GDS

TAGS: ECON, EFIN, NATO, PFOR

SUBJECT: ECONADS: NATO AND WARSAW PACT--STRATEGIC AND

-- POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION

REF: NATO 1352

1. TYPE OF POLICIES WE HAD IN MIND ARE THOSE SUCH AS "INCOMES POLICIES" AND INDEXATION TO COMPENSATE FOR INFLATION OF THE BRAZILIAN VARIETY. SUCH POLICIES WERE BEING PROMOTED LAST YEAR BY SOME ECONOMISTS. WE DID NOT MEAN TO IMPLY THAT THESE ARE NECESSARILY UNDESIRABLE. ALTHOUGH WE ARE SKEPTICAL OF THEIR USE ON ANY MEDIUM OR LONG-TERM BASIS BECAUSE THEY TEND TO INTRODUCE NEW DISTORTIONS INTO THE ECONOMY, A GOOD CASE CAN BE MADE FOR THEIR USE IN SOME CIRCUMSTANCES IF TRADITIONAL ANTI-INFLATION POLICIES DO NOT SEEM TO WORK.

2. SINCE OUR PAPER WAS DRAFTED, GROWING CONCERN WITH ECONOMIC RECESSION HAS MADE ISSUE OF INFLATION LESS IMPORTANT THAN THAT OF PROMOTING OUTPUT AND EMPLOYMENT.

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WE HOPE THAT ECONADS DISCUSSIONS WILL REFLECT THIS SHIFT

IN FOCUS. INGERSOLL

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